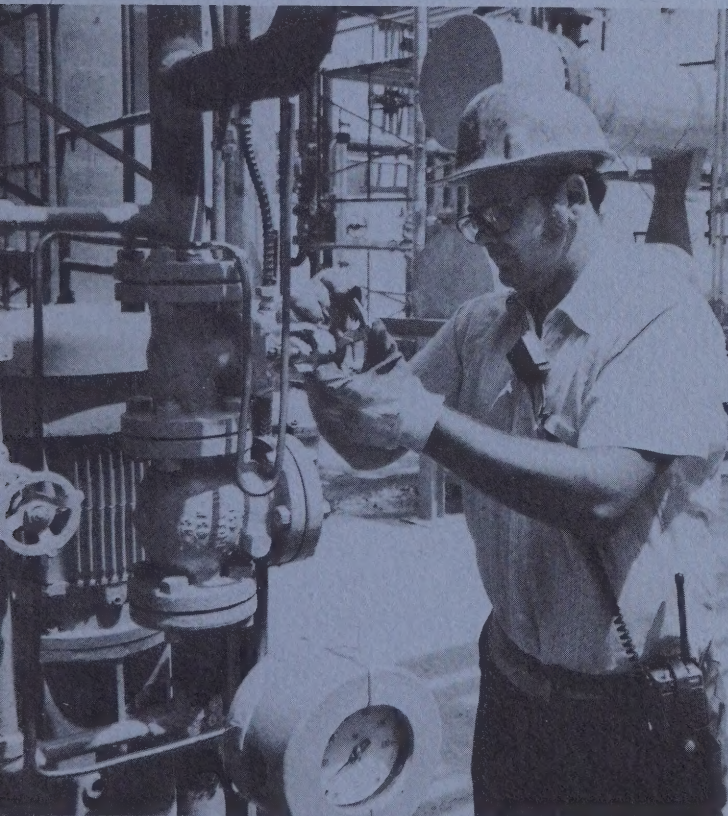
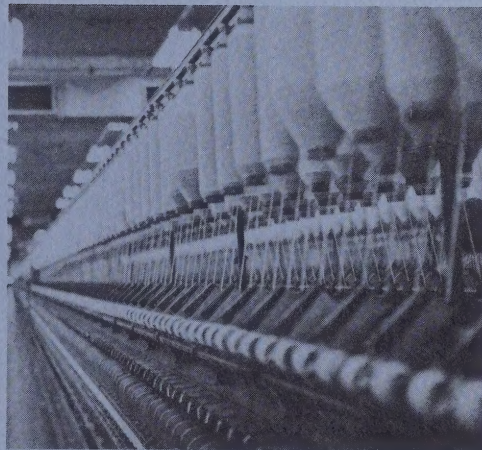


Sun Oil Company Limited 1976 Annual Report

AR26



Sun Oil Company Limited

(Incorporated 1923 under the laws of Canada)

Head Office

20 Eglinton Avenue West
Toronto, Ontario M4R 1K8

Products Group

56 Wellesley Street West
Toronto, Ontario M5S 2S4

Exploration and Production Group

500-4th Avenue S.W.
Calgary, Alberta T2P 2V5

Directors

Brian T. Abbott, *Toronto*
Allan Findlay, *Toronto*
Kenneth F. Heddon, *Toronto*
Ross A. Hennigar, *Toronto*
Gordon E. Hillhouse, *Radnor, Pa.**
Ardagh S. Kingsmill, *Toronto*
Joseph R. Layton, *Radnor, Pa.**
William R. Loar, *Calgary**
Dudley M. McGeer, *Toronto*
Harry S. Ostrander, *Toronto*

Toronto and Calgary-based directors (except Allan Findlay and Ardagh S. Kingsmill) are employees of the company.

Principal Officers

Kenneth F. Heddon
Chairman of the Board and Chief Executive Officer
Ross A. Hennigar
President and Chief Operating Officer
Harry S. Ostrander
Group Vice President, Products
George H. Brereton
Vice President
William R. Loar*
Group Vice President Exploration and Production
F. Hugh Latimer*
Vice President, Exploration
Brian T. Abbott
Vice President, Logistics and Environmental Conservation
Howard B. Maxwell
Vice President, Corporate Affairs
Dudley M. McGeer
Vice President, Administration
Anthony A. L. Wright
Secretary and Treasurer

**denotes other than Canadian citizen*

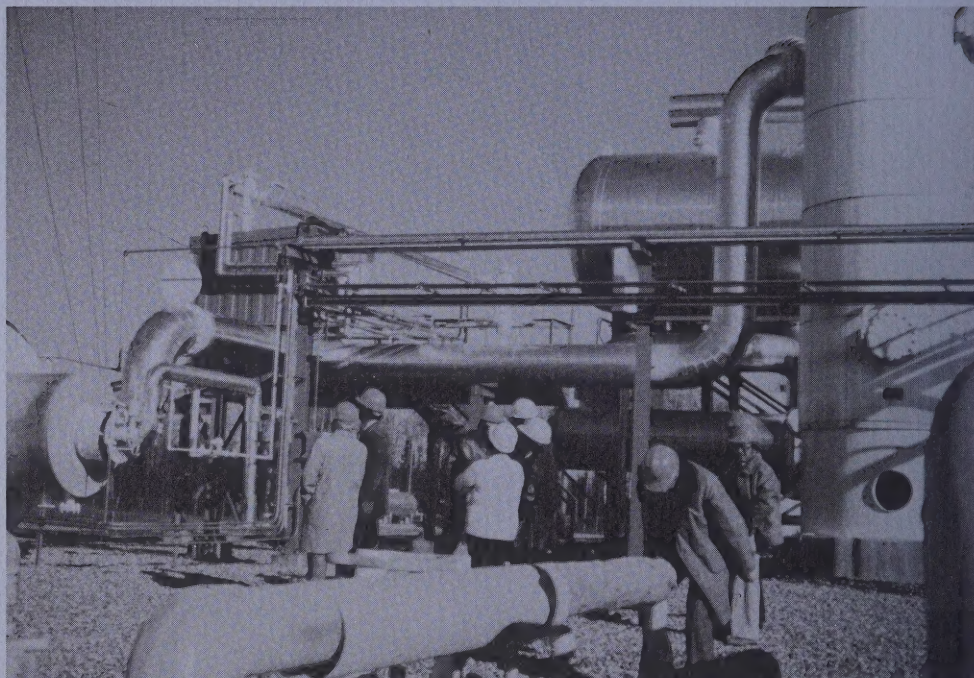
General Counsel

Tilley, Carson & Findlay
44 King St. West
Toronto, Ontario

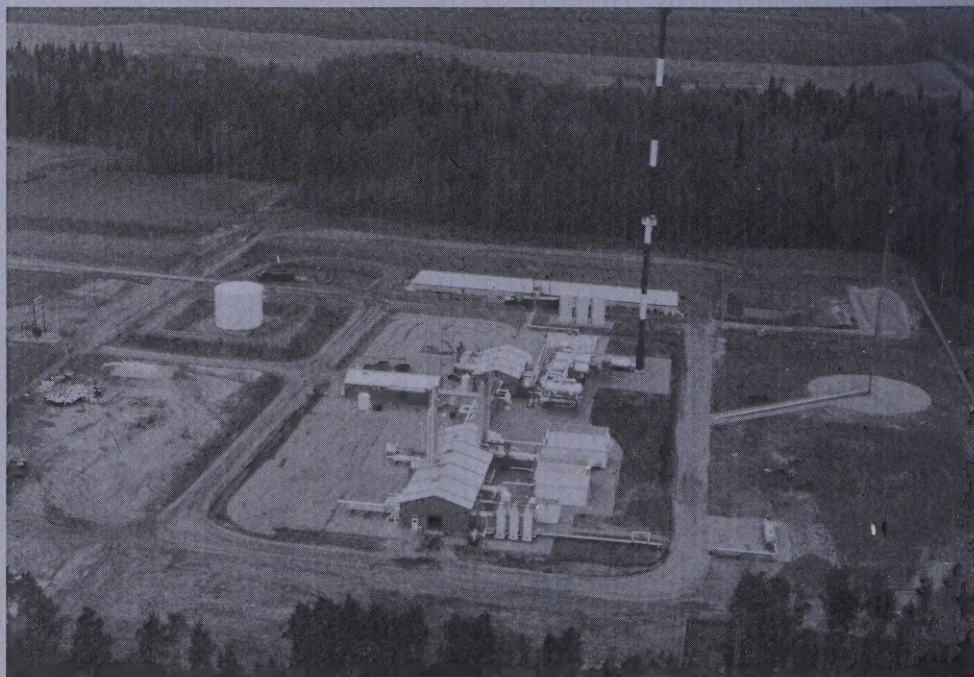
Vous pouvez vous procurer un exemplaire en français de ce Rapport annuel auprès de notre Service des Affaires publiques. Écrivez à: Service des Affaires publiques, Sun Oil Company Limited, 20 Eglinton Avenue West, Toronto, Ontario M4R 1K8.

New plant openings

... Rosevear, Alberta



Guests tour facilities at company's Rosevear gas plant in Alberta. The plant went on stream in mid-1976. Cost was \$9 million.



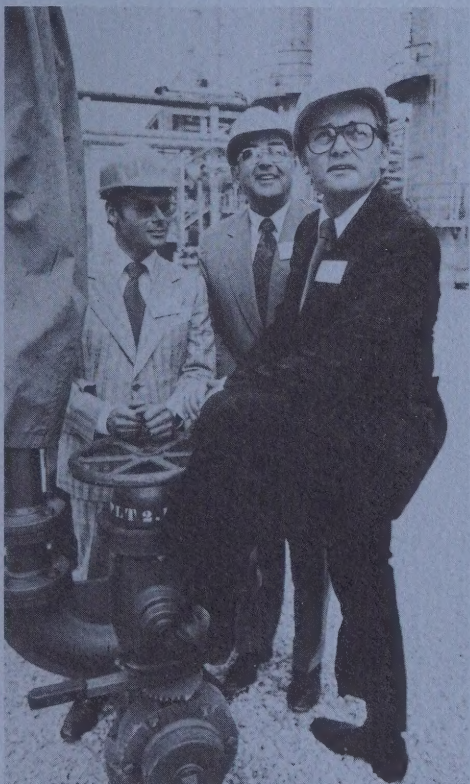
Aerial view shows layout of Rosevear gas plant. Situated near Edson, Alberta, it produces 26 million cubic feet of gas daily for shipment.

Highlights of the year

	1976	1975†
Financial		
	(Dollars in thousands)	
Revenues	\$401,228	\$346,720
Net profit	13,380	13,638
Cash flow from operations	44,444	43,639
Capital expenditures	39,783	70,678
Total assets	514,796	497,108
Return on shareholders' average equity	4.4%	4.7%
Operating		
Refined products sold (thousands of barrels)	24,272	25,659
Crude oil refined (thousands of barrels)	28,412	30,397
Gross crude oil and condensate produced (thousands of barrels)	5,579	5,596
Gross natural gas produced (millions of cubic feet)	21,310	17,784

†See note 3 to Financial Statements.

... Sarnia, Ontario



Kenneth F. Heddon, chairman of the board, is flanked by Claude Bennett, Ontario Minister of Industry and Tourism (left) and Dennis Timbrell, then Ontario Minister of Energy, at BTX official opening.



Area co-ordinator Dick Warren looks over new Sarnia plant which produces benzene, toluene and xylenes.



Lorne Stewart (right), operations superintendent, discusses petrochemical complex with guests.



Logo of Sunchem, the new division created to market petrochemicals produced from BTX plant.

Report to the Shareholders

Financial

Sun Oil Company Limited's net profit for 1976 was \$13.4 million, down some two per cent from the \$13.6 million earned in 1975. Revenues for the year were \$401 million, up 16 per cent over the \$347 million for the previous year. Net profit for 1976 represented a return of 4.4 per cent on shareholders' average equity, fractionally less than the 4.7 per cent for 1975.

The reduction in profits mainly resulted from continuing low margins on refined product sales aggravated by oversupply conditions in eastern Canada. Profit also was adversely affected by the ongoing inflation of operating costs. As well, interest expense was higher. The decrease in profits was partially offset by higher prices for natural gas and crude oil and increased production of natural gas.

Capital spending for the year declined to \$39.8 million from \$70.7 million in 1975. The drop largely resulted from reduced spending for exploration, primarily in the frontier areas, and the completion of the BTX plant at Sarnia.

Exploration and Production

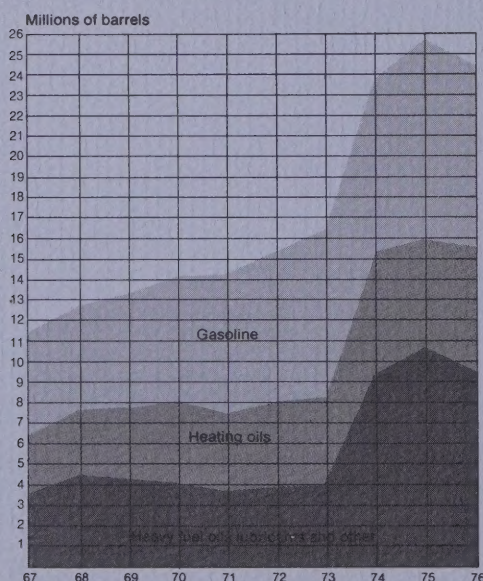
The company produced a gross daily average of almost 15,300 barrels of oil and 58.2 million cubic feet of natural gas in 1976. Gross crude production remained almost level with 1975 while gross output of natural gas was up 20 per cent for the year. The increase was brought about mainly by the mid-year start-up of the Rosevear gas plant and expansion of the Albersun pipeline system.

During 1976, the company moved to reduce heavy capital expenditures in areas which did not promise near-term returns. A major step was a farmout of Arctic Islands acreage. The company entered into a farmout agreement with a four-company group made up of Imperial Oil Limited, Gulf Oil Canada Limited, Panarctic Oils Ltd. and Petro-Canada Exploration Inc. Under the agreement, the group will fund an \$80 million exploration program over a four to six-year period. Sun Limited owns varied interests in approximately 32 million gross acres in the Arctic Islands. Under the program Sun Limited will retain 40 per cent of its

former interest. Panarctic Oils Ltd is operator for the group. Drilling under the agreement began in early 1977.

Significant portions of the acreage involved have been the object of an intensive seismic survey conducted over the past two years by Sun Limited, as operator for a consortium of companies known as the Arctic Islands Offshore Group. The survey will be completed in 1977 with the final total cost estimated at approximately \$45 million, of which Sun Limited's share will be about \$8.5 million. A number of prospective areas have been identified to date. By further refining the data and through drilling of these prospects with the money available under the farmout agreement, it is hoped that sufficient additional gas and oil reserves will be discovered to justify the establishment of transportation systems to southern markets. To date, an estimated 15 trillion cubic feet of gas and a possible commercial oil field have been discovered in the Arctic Islands by the oil industry. Included in the estimated gas reserves is a significant discovery

Product sales volumes



Surveyor engineer sights through instrument during seismic program in Arctic.



Mike Dodworth (right), senior engineer, E&P Group and Ross Hennigar, Sun Limited president, stand beside Killam well in Alberta.

made last April, the Jackson Bay G-16A well, in which Sun has an interest.

The farmout agreement covering the Arctic Islands does not include any of Sun Limited's acreage in the Mackenzie Delta or Beaufort Sea. It was on the Mackenzie Delta acreage that the company completed the Garry P-04 oil and gas discovery well in early 1976. The Garry well is situated about six miles northwest of Niglintgak and some 10 miles southeast of Adgo, both oil and gas discoveries made by others in the Delta. In a submission to the National Energy Board concerning gas reserves in the Delta, the company has estimated that the Garry well had discovered approximately 254 billion cubic feet of natural gas. In all, the well encountered 265 feet of gas-bearing sand and 65 feet of oil-bearing sand.

Also in the Delta, the company began drilling Unark L24-A late in 1976 from an artificial island on the Unark permit. At the end of 1976, this farmin well had reached a depth of approximately 11,000 feet, but subsequent mechanical difficulties forced plugging back to 5,330 feet before recommencing drilling. At the date of this report the well had reached a depth of more than 12,000 feet, some 3,000 feet short of its objective. This is Sun Limited's fourth well on the 270,000-acre farm in and upon

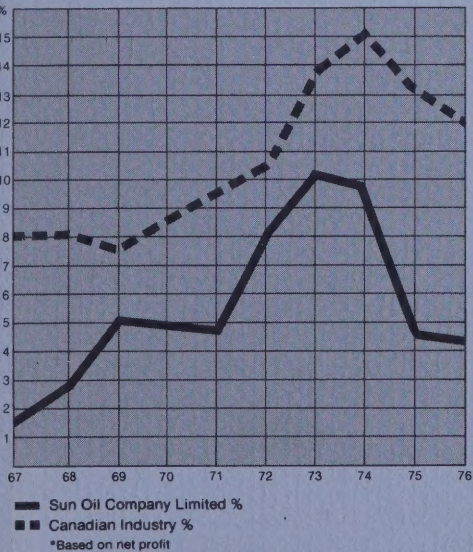
Sun Oil Company Limited and Energy Conservation

In the face of increasing demand for the nation's dwindling reserves of crude oil and natural gas, the need for energy conservation by all consumers is manifest. Efforts to muster public support for energy conservation have been undertaken by government and Sun Oil Company Limited, as both a supplier and a consumer, applauds and supports such efforts. For its part, the company has instituted energy conservation measures in its various operations. For example, steps have been taken to reduce energy consumption at the Sarnia Refinery; company vehicles have been limited to 55 miles-per-hour highway speed; new plants, such as the Rosevear gas plant completed last year near Edson, Alberta, are designed and built to operate at the most efficient energy-use level practicable. These are but some of our efforts. Others are underway and more will be undertaken in the future.

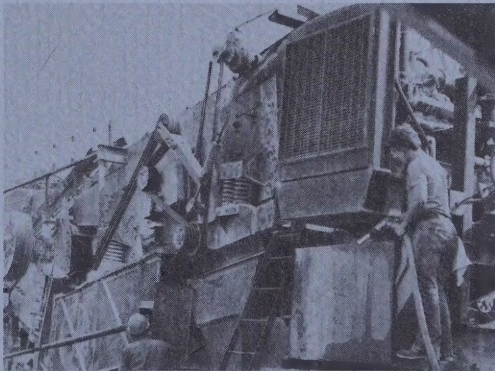
completion, will entitle the company to a 45 per cent interest in the Unark permit. Unark L24-A will test production possibilities indicated by the first Unark L-24 well which was drilled during the winter of 1974-1975 but abandoned because of mechanical difficulties. The Unark location lies some 14 miles northeast of the Taglu gas discovery and eight miles west of Ivik, an oil discovery well, both made by other companies. Including geophysics, the company spent some \$7.5 million for exploration in the Mackenzie Delta in 1976.

Off the coast of Labrador, where Sun Limited has a 10 per cent interest in the Labrador Group acreage operated by Eastcan Exploration Ltd., the company's share of expenditures reached \$3 million. Three drilling vessels were employed by the group in 1976 to complete a five-well program. Two of the wells were dry and abandoned; one well was abandoned because of technical difficulties; one was partially drilled; the fifth, Snorri J-90, was tested and classed as a gas discovery and suspended. One of the abandonments, Herjolf M-92, was

Return* on shareholders' average equity for the company compared with Canadian industry



Area technician Dan Elliott adjusts pump discharge valve at Sun's new BTX plant.



Lubrication specialist at earth-moving company services machinery using Sun products. Company sells significant volumes of lubricants to industrial customers.

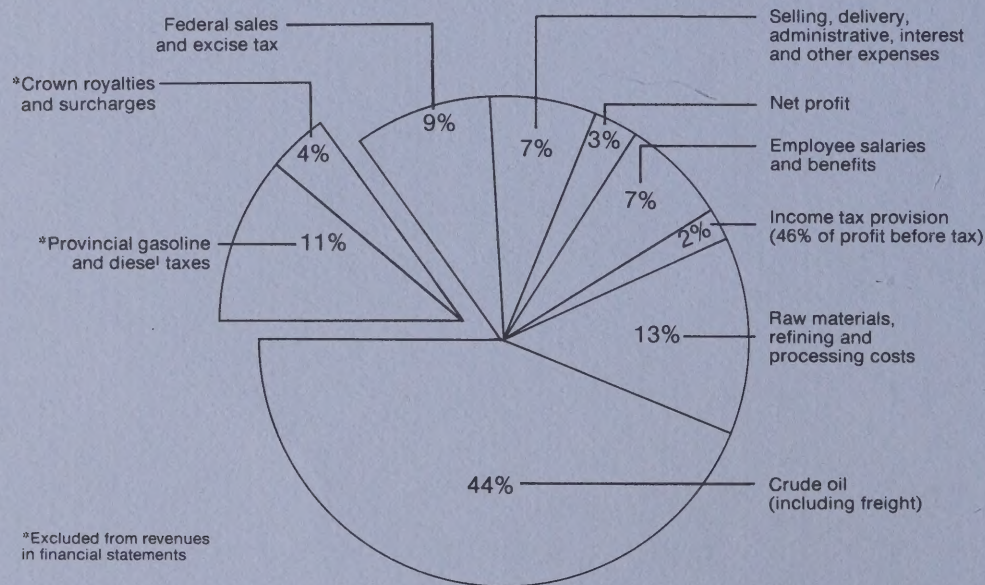
Payments to government other than income taxes

(thousands of dollars)

	Crown royalties and surcharges	Mineral lease rentals	Production and related taxes	Federal sales and excise taxes	Real estate and other taxes	Total
British Columbia	\$ 1,592	\$117	\$ 30		\$ 3	\$ 1,742
Alberta	11,721	418	1,098			13,237
Saskatchewan	5,190	24	300			5,514
Manitoba	281		20		1	302
Ontario					2,742	2,742
Quebec					832	832
Federal		5		\$44,084		44,089
Total	\$18,784	\$564	\$1,448	\$44,084	\$3,578	\$68,458

The above table does not include amounts collected by Sun for government. For example, in 1976 Sun collected and remitted \$53 million in Ontario and Quebec gasoline and diesel fuel taxes.

Where our revenues go



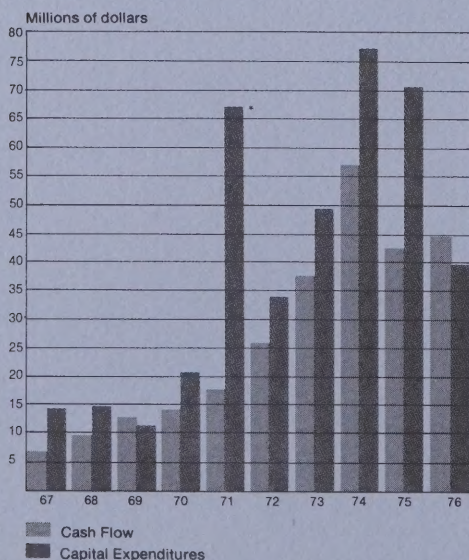
drilled as a stepout well to the 1973-1974 discovery well at Bjarni, but failed to uncover significant hydrocarbons.

In western Canada, particularly Alberta, nearly \$10 million was spent by the company in the search for and development of oil and gas during 1976. The exploration program concentrated on acquiring immediate drilling prospects. The company participated in seven exploratory wells, resulting in three gas wells and four abandonments. It also participated in 23 development wells which resulted in four oil wells, 18 gas wells and one dry hole. Of the 23 development wells, 20 were drilled in Alberta and three in British Columbia.

The Rosevear gas plant, in which the company has a 50 per cent interest, was completed and put on stream at mid-year. Situated near Edson, Alberta, the Sun Limited-operated \$9 million plant is designed to handle 31 million cubic feet of raw natural gas daily and produce for sale 26 million cubic feet of residual gas, 200 barrels of condensate and some 85 tons of sulphur daily.

Three additional gas fields were tied into the 225-mile Albersun transmission and gathering line system and additional compression was installed. The system now handles 95 million cubic feet of gas daily

Cash flow from operations vs. capital expenditures



*Note: 1971 purchases included \$35,900,000 exploration and production properties, plant and equipment purchased from the parent company in consideration for the issue of Sun Oil Company Limited common shares.



Employees of Blending and Packaging Plant at Montreal watch television tape of Harry Ostrander, group vice president, Products, describing new strategy implemented in 1976.



Sales of gasoline and diesel fuel to industrial customers are important sources of revenue to the company. Above, equipment is fueled with Sun Limited products.

compared to 35 million at the beginning of the year. The system was originally established to serve the Great Canadian Oil Sands Limited plant and the nearby town of Fort McMurray with approximately 30-35 million cubic feet of natural gas daily. The expansion permits additional sales of about 60 million cubic feet of gas daily to TransCanada PipeLines Limited.

The economic and political environment for the oil industry demonstrated a further measure of improvement in 1976. This improvement has largely manifested itself through greater economic incentives to seek oil and gas in the established producing areas in western Canada.

At the Federal level, the government made public its proposed regulations concerning oil and gas exploration and development in the frontier areas. The publication of the proposed regulations is a step toward clarifying the oil industry's position in the frontier areas. However, in a submission to the government, Sun Limited expressed the belief that a number of obstacles are inherent in the new regulations and must be removed if government and industry objectives are to be met. These obstacles relate to inequities in the royalty regime; appropriation of exploration rights by Petro-Canada with no reimbursement; increased lease rentals; extensive ministerial discretion; and application and timing of Canadian ownership requirements.

Refined Products and Petrochemicals

Sales volumes of refined products fell over five per cent to 66,300 barrels daily. The drop partly resulted from a decline in demand plus the company's withdrawal from certain markets. The latter move was caused by the erosion

of margins due to excess refining capacity in eastern Canada. Though much of this capacity was constructed to serve export markets, subsequent restrictions on exports have caused production of gasoline and fuel oils to be substantially greater than domestic market demand with a resulting deterioration of profit margins. It would appear the problem will not be alleviated for several years, particularly in view of the additional refining capacity which is now under construction in Ontario.

Faced with changing conditions in the market for petroleum products, the company moved to establish more profitable product lines and to reduce dependency on gasoline retailing. The program included the formation of a petrochemicals division called Sunchem, to market chemicals produced at the new BTX plant at Sarnia, and to pursue a number of additional opportunities. The new \$26 million plant was officially opened in August and produces benzene, toluene and xylenes. This is the company's first petrochemical venture.

The second major part of the program was to begin recovering substantial amounts of capital by offering for sale a number of service stations to lessee-dealers, or to others for non-petroleum use. At year-end,

the move was being tested in two pilot markets. The sale of service stations does not portend Sun Limited's withdrawal from the retail gasoline market.

In 1976, Sun Limited applied to the National Energy Board (NEB) for permission to continue to export bunker fuel from the Sarnia Refinery to Detroit Edison Company in Michigan. Late in the year the company's request was granted and over the next six years, it will be allowed to export up to 19,000 barrels daily. The permit will be reviewed by the NEB at the end of three years.

In seeking relief from the restrictions on exports, Sun Limited pointed out in its application that it had invested in a substantial increase in capacity at Sarnia in order to serve export markets. At the time of that investment, it noted that no restrictions on product exports existed and, the application said, unless it could now continue to export it would have capacity far in excess of its domestic needs. The company's application also said that the exports would not result in a shortfall in supply in the market served by the refinery within the period of the permit. It noted that the exports are a value-added product which helps to offset the increasing cost of importing growing quantities of foreign produced crude oil.



Jean-Guy Lauzon (left) and Ted Peters of Toronto, two of many employees who learned new skills at company-conducted training courses in 1976.



Dockhand turns valve to begin loading first major shipment of xylenes and toluene from Sarnia.

The Future

Looking to the future, the company has allocated some \$62 million, up roughly 50 per cent over 1976, for capital spending in 1977. Of this amount about \$40 million has been earmarked for exploration and production and \$22 million for refined products and petrochemicals.

Among the exploration and production projects planned is the commencement of a second well on the Garry block in the Mackenzie Delta. It will be drilled four to five miles north of the Garry P-04 oil and gas discovery well, completed in early 1976. About \$8 million has been budgeted by the company for work in the Delta.

Off the coast of Labrador, five wells have been tentatively scheduled by the Labrador Group. The company's share of the cost will be \$5 million.

In the Arctic Islands, spending by the company will be minimal in 1977 as the farmout arranged in 1976 will provide the funds for the expenditures in this area over the next several years.

In western Canada, higher prices for natural gas, more realistic royalty regulations and incentives have increased the availability of funds, which in turn has encouraged the industry to expand production and seek additional reserves. Sun Limited plans to continue to take advantage of these positive developments and has commenced an exploration program of shallow well drilling in Alberta. Plans have also been made to test deeper oil and gas horizons in Alberta, Saskatchewan and British Columbia.

During 1977, natural gas production is expected to grow, aided by the

shallow gas drilling program; Rosevear being on stream for the full year; and increased utilization of the Albersun system. Though revenues from crude oil production will rise marginally due to increased prices, the company's production volumes will be down because of reduced exports and a continued natural decline in production from existing wells.

Under consideration for 1977 is the construction of an orthoxylene unit which would increase the versatility of the BTX plant at Sarnia. Cost is expected to be in excess of \$6 million.

While higher sales volumes are anticipated in most refined products, no substantial improvement in profit margins, particularly for gasoline, is foreseen due to the product oversupply problem.

During the coming year, Sun Limited expects to continue its program of streamlining its retail operations through the sale of several hundred service stations. Some will be sold to lessee-dealers and others will be sold for non-petroleum use. The lion's share of the approximately 950 retail outlets remaining will be dealer-owned

or dealer-operated. The balance will be company-owned and operated. To help retail operations keep abreast of competition, new service station construction is planned along with upgrading of other stations and the conversion of some existing outlets to self-serve. In all, the marketing budget for 1977 totals \$6 million.

The year 1976 was characterized by transition. The company is now moving to achieve a better balance in the use of its assets in order to take the fullest possible advantage of future opportunities. The contribution of the employees during this difficult period has been substantial. As the company continues this transition to a more broadly-based, diversified entity, employee skills, abilities and particularly commitment become even more vital in achieving improved profitability and growth, which, in turn, create new jobs and offer new career opportunities.

Kenneth F. Heddon,
Chairman of the board

March 7, 1977



Sunoco self-serve station in Oshawa is operated by dealer Tom Sheehan. At end of 1976 some 150 service stations were operated as self-serve outlets.

Statement of Performance for the year ended December 31 (note 3)

Sun Oil Company Limited and Subsidiaries

	1976	1975
	(Thousands of dollars)	
Revenues		
Sales and other operating	\$400,821	\$346,161
Investment	407	559
	401,228	346,720
Expenses		
Cost of products	314,787	260,294
Depletion of oil and gas properties	8,707	8,066
Selling, general and administrative	50,330	49,810
(Gain) on disposals of properties, plant and equipment	(2,421)	(477)
Interest (note 4)	4,908	1,950
Income tax provision	11,537	13,439
	387,848	333,082
Net profit	\$ 13,380	\$ 13,638

See accompanying notes

Auditors' report

To the shareholders of
Sun Oil Company Limited

We have examined the consolidated statement of financial position of Sun Oil Company Limited and subsidiaries as at December 31, 1976 and the consolidated statements of performance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1976 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants
Toronto, Ontario, January 19, 1977

Statement of Financial Position as at December 31 (note 3)

Sun Oil Company Limited and Subsidiaries

	1976	1975
	(Thousands of dollars)	
Cash and items convertible to cash within one year		
Cash	\$ 3,495	\$ 5,796
Amounts due from: customers	55,625	52,383
affiliated companies	526	1,266
others	9,898	10,630
Inventories (note 5)	93,412	89,384
	162,956	159,459
Deduct: Liabilities payable within one year		
Short-term borrowings	24,277	20,467
Amounts due to: suppliers	49,770	55,640
affiliated companies	8,815	15,132
Export, sales and other taxes	10,660	10,756
Current portion of long-term borrowings	40	99
	93,562	102,094
Working capital	69,394	57,365
Add: Other assets		
Properties, plant and equipment (note 6)		
Exploration and production	181,757	176,530
Refining and petrochemicals	75,370	62,361
Transportation and distribution	38,800	39,723
Marketing	48,694	51,163
	344,621	329,777
Investments at cost	1,816	2,406
Expenditures for the benefit of future years	5,403	5,466
	351,840	337,649
Working capital plus other assets	421,234	395,014
Deduct: Liabilities payable beyond one year		
Deferred revenues	1,760	1,247
Long-term borrowings (note 7)	30,122	30,157
Deferred income taxes	71,808	59,110
Portion of subsidiary's equity not owned by Sun	8,460	8,796
	112,150	99,310
Shareholders' equity	\$309,084	\$295,704
Shareholders' equity consists of:		
Common shares (note 8)	\$188,605	\$188,605
Profits retained in the business		
Beginning of year	107,099	93,461
Net profit for the year	13,380	13,638
End of year	120,479	107,099
	\$309,084	\$295,704

On behalf of the Board
K. F. Heddon, Director
D. M. McGeer, Director

See accompanying notes

Statement of Changes in Financial Position for the year ended December 31 (note 3)

Sun Oil Company Limited and Subsidiaries

	1976	1975
Source of working capital (Thousands of dollars)		
Net profit	\$13,380	\$13,638
Add back (deduct) items not affecting working capital:		
Depreciation	10,490	9,648
Depletion	8,707	8,066
Amortization of expenditures for the benefit of future years	1,590	1,094
Deferred income taxes	12,698	11,670
(Gain) on disposals of properties, plant and equipment	(2,421)	(477)
	44,444	43,639
Disposals of properties, plant and equipment	8,163	3,780
Investments	1,019	2,441
Increase in deferred revenues	513	303
Long-term borrowings	—	30,058
Increase (decrease) in portion of subsidiary's equity not owned by Sun	(336)	708
Additions to working capital	53,803	80,929
Use of working capital		
Purchases of properties, plant and equipment:		
Exploration and production	18,763	44,599
Refining and petrochemicals	16,349	11,766
Transportation and distribution	1,716	8,279
Marketing	2,955	6,034
Investments	429	714
Expenses for the benefit of future years	1,527	3,004
Borrowings maturing within one year	35	97
Reductions in working capital	41,774	74,493
Net increase in working capital	12,029	6,436
Working capital — beginning of year	57,365	50,929
Working capital — end of year	\$69,394	\$57,365
Analysis of the change in working capital		
Cash	\$ (2,301)	\$ 5,521
Amounts due from customers, affiliated companies and others	1,770	(17,891)
Inventories	4,028	35,864
Short-term borrowings	(3,810)	(2,067)
Amounts due to suppliers and affiliated companies	12,187	(15,810)
Export, sales and other taxes	96	716
Current portion of long-term borrowings	59	103
Net increase in working capital	\$12,029	\$ 6,436

See accompanying notes

1. Summary of significant accounting policies

(a) Consolidation —

The accompanying financial statements are prepared on a consolidated basis to include the accounts of all subsidiaries.

(b) Inventories —

Imported crude oil and refined products are valued at cost, using the first in first out pricing method, which does not exceed net realizable value. Canadian crude oil is valued, using the first in first out pricing method, at posted prices prevailing at time of production. Refined products derived from Canadian crude oil are based on these values.

Materials and supplies are valued at cost, which does not exceed net realizable value.

(c) Exploration and production expense, full cost method — All costs incurred in finding oil and gas reserves, including leasehold acquisition and retention costs, are capitalized. Such costs are charged against operations by a provision for depletion, calculated on a unit-of-production basis. Tangible equipment is capitalized and depreciated.

Operating costs of current production are charged directly to expense as incurred, as are overhead, general and administrative costs.

(d) Depreciation and depletion —

Plant and equipment: depreciation is based on the average estimated useful lives of the major asset categories, and charged against revenues on a straight line basis.

Oil and gas properties: depletion is charged against revenues in the ratio of units produced to estimated reserves.

(e) Income tax provision —

Some costs and revenues may by law be deducted or added in calculating taxable income in years later or earlier than actually recorded in the financial statements. The "income tax provision" is based upon the revenues and expenses actually recorded, but differs from taxes actually paid or payable. In the long run these differences between taxes actually payable and amounts expensed in respect of taxes would tend to disappear, but year by year there are imbalances, shown in the statement of financial position as "deferred income taxes."

2. Acquisition of associated companies

In December 1976 the company acquired all the outstanding shares of Sunray DX Northern Oil Co. Ltd. and Sunray DX Western Oil Co. Ltd., (both exploration and production companies in western Canada), with a book value of \$360,000, in consideration for the issuance to Sun Company, Inc. of 935 shares of the company's capital stock valued at \$16,269,000. Revenues of these companies (net of inter-company

transactions) in 1976 were \$1,820,000 (1975 \$1,521,000), and 1976 net profit was \$890,000 (1975 \$1,242,000). Because this transaction involved companies under common control, it was accounted for as a 'pooling of interests', under which the three companies are presented in combination as if they had been one entity since inception. Assets, liabilities and shareholders' equity are added together at book value, and revenues and expenses are combined.

3. Changes in statement presentation

Statement of performance:

Federal sales and excise taxes were formerly netted against sales, but to conform with industry practice are now included in revenues (sales and other operating), and in expenses (cost of products).

Gains on disposals of properties, plant and equipment were formerly netted

against selling, general and administrative expenses, but in view of their increased significance are now shown separately.

1975 comparative figures have been reclassified to reflect these changes.

All statements:

1975 comparative figures are restated to reflect the pooling of interests described in note 2.

4. Interest expense	1976	1975
Short-term	\$1,639,000	\$1,751,000
Long-term	3,269,000	199,000
	\$4,908,000	\$1,950,000

5. Inventories	1976	1975
Crude oil	\$52,249,000	\$45,435,000
Refined products	30,949,000	34,171,000
Materials and supplies	10,214,000	9,778,000
	\$93,412,000	\$89,384,000

6. Properties, plant and equipment	Properties, plant and equipment at cost	Accumulated depreciation and depletion	Net Values
Exploration and production			
Plant and equipment	\$ 29,821,000	\$ 7,596,000	\$ 22,225,000
Oil and gas properties	197,621,000	38,089,000	159,532,000
Refining and petrochemicals	108,058,000	32,688,000	75,370,000
Transportation and distribution	57,944,000	19,144,000	38,800,000
Marketing	75,668,000	26,974,000	48,694,000
	\$469,112,000	\$124,491,000	\$344,621,000

7. Long-term borrowings	1976	1975
Bank loan due January 30, 1981, bearing interest at 1% over the lending bank's prime rate	\$30,000,000	\$30,000,000
Mortgages and notes	122,000	157,000
	\$30,122,000	\$30,157,000

8. Common shares	Issued and fully paid — 15,997 shares, all of which are owned by Sun Company, Inc.
Authorized — 20,000 common shares of no par value	

9. Commitments and contingencies	
(a) The unfunded liability for past service costs in connection with the employees' pension plan at December 31, 1976 is estimated to be \$8,000,000 (based on an independent actuarial valuation as of January 1, 1976). This amount, with interest at five per cent, will be paid over the next 13 years.	\$1,600,000 of past payments which are included in expenses for the benefit of future years remain to be charged to expense over the same period.
	(b) Minimum annual rental charges under leases and commitments expiring more than three years after the year-end approximate \$2,400,000.

10. Directors and officers	
The 10 persons who were directors of the company during all or part of 1976 received no remuneration as such.	The 15 officers of the company during 1976 included six who were also directors. Remuneration of officers aggregated \$714,200.

11. Anti-Inflation Act	
The company is subject to the Anti-Inflation Act and the regulations established thereunder, which include restraint on dividends.	

Undeveloped acreage

	Gross*	Net**
British Columbia	181,817	112,644
Alberta	838,343	424,876
Saskatchewan	14,672	8,161
Yukon Territory	47,425	35,569
Mackenzie Delta/Beaufort Sea	1,780,808	599,252
Arctic Islands	31,944,965	12,543,225**
Other Northwest Territories	167,751	25,980
Atlantic Offshore	30,258,610	3,068,414
	65,234,391	16,818,121

*Gross undeveloped acreage means the total acreage in which Sun has an interest.

**Net undeveloped acreage means acreage equivalent to Sun's interest after elimination of outside interests.

***Subject to reduction under a farmout agreement.

Daily production by province

	Crude oil and condensate (barrels)		Raw natural gas (thousands of cubic feet)	
	Gross*	Net**	Gross*	Net**
British Columbia	1,134	619	8,606	8,606
Alberta	8,782	5,104	48,455	29,847
Saskatchewan	4,852	3,738	1,163	1,041
Manitoba	475	416	—	—
	15,243	9,877	58,224	39,494

*Gross production means total production equivalent to Sun's interest.

**Net production means the quantity equivalent to Sun's working interest after deduction of Crown royalties and freehold and overriding royalty interests.

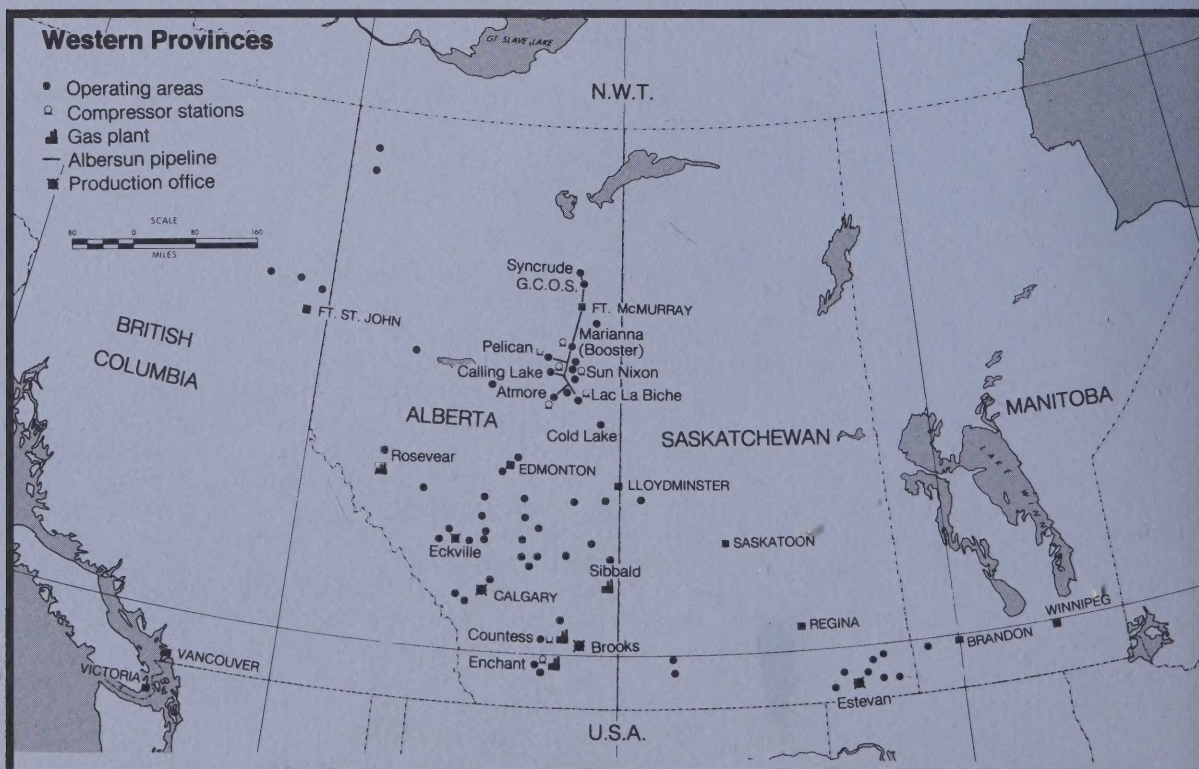
Proven reserves

	Gross*		Net**	
	1976	1975†	1976	1975†
Crude oil (millions of barrels)	100	102	66	72
Natural gas (billions of cubic feet)	537	563	385	406

*Gross reserves means reserves equivalent to Sun's interest.

**Net reserves means reserves equivalent to Sun's interest after deduction of Crown royalties and freehold and overriding royalty interests.

† Restated to include SDX companies acquired in 1976. (See note 3 to financial statements)



Parent Company

Sun Company, Inc.
Radnor, Pennsylvania

Subsidiary Companies

Albersun Pipeline Ltd.
Calgary, Alberta
Natural gas pipeline operator in Alberta

Baron Petroleums Inc.
Toronto, Ontario
Retail gasoline distributor

Gow Fuels Inc.
Chelsea, Quebec
Heating oil and gasoline distributor

Les Huiles de Terrebonne Ltée.
Terrebonne, Quebec
Heating oil distributor

Maywelle Properties Ltd.
Toronto, Ontario
Real estate developer

Ouimet-Gobeille Inc.
Montreal, Quebec
Heating oil and gasoline distributor

SMS Petroleums Ltd.
Toronto, Ontario
Retail gasoline distributor

Sun-Canadian Pipe Line Company
Limited
Waterdown, Ontario
*Petroleum products pipeline
operator in southern Ontario
(55% owned)*

Sun Explorations of Quebec Ltd.
Calgary, Alberta
Exploration in the Province of Quebec

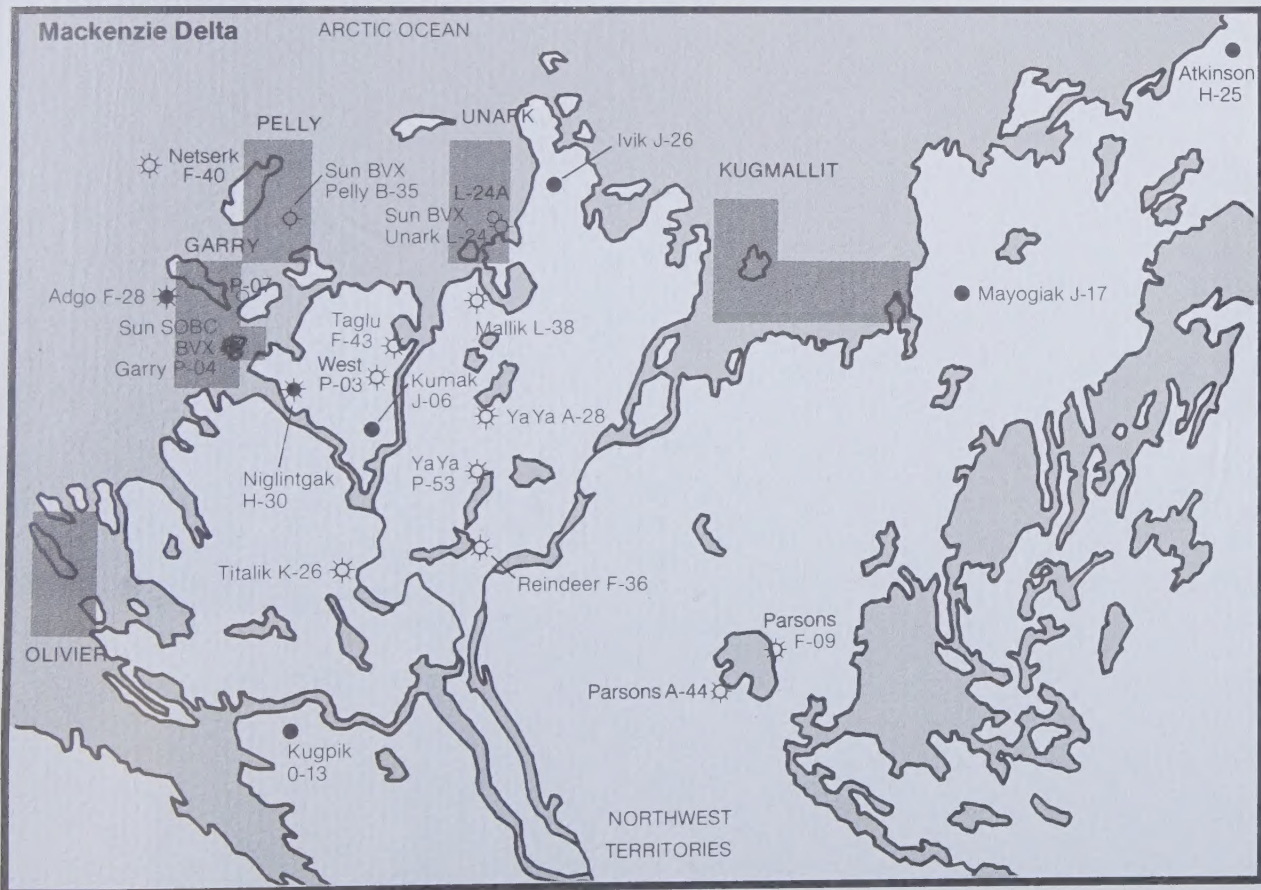
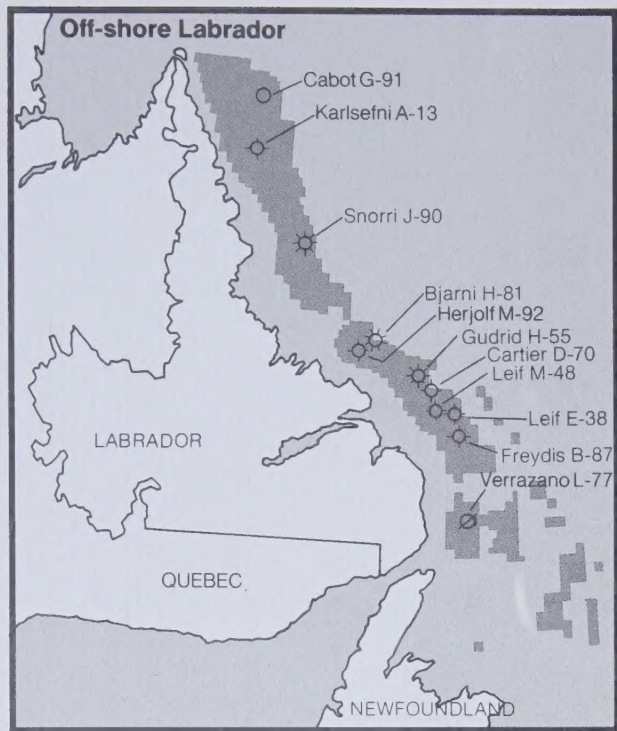
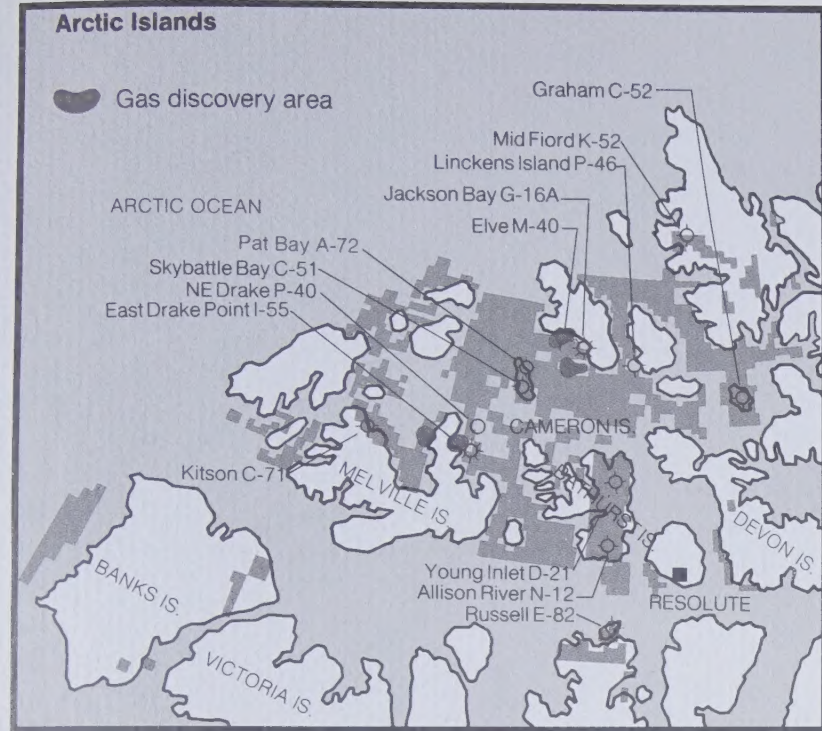
Turbex Ltd.
Toronto, Ontario
*Heating oil and gasoline distributor
with various divisions in Ontario*

Associated Companies

Great Canadian Oil Sands Limited
and its subsidiaries
Fort McMurray and Edmonton, Alberta
Toronto, Ontario
*Production of synthetic crude oil
from the Athabasca oil sands*

Sperry-Sun of Canada Ltd.
Edmonton, Alberta
Well surveying and engineering services

Sunray DX Canada Oil Company
Calgary, Alberta
*Exploration and production in
western Canada*



○ Location (Sun interest)

● Well with oil potential

⊙ Well with gas potential

⊙ Well with oil & gas potential

⊙ Dry & abandoned well (Sun interest)

⊙ Well suspended

■ Acreage in which Sun has an interest or has an option to earn an interest.

Financial and Operating Summary †

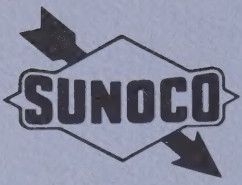
	1976	1975	1974	1973	1972
(Dollars in thousands)					
Financial					
Revenues	401,228	346,720	280,561	150,015	123,155
Expenses	387,848	333,082	258,126	134,089	113,615
Profit before extraordinary item	13,380	13,638	22,435	15,926	9,540
Extraordinary item	—	—	2,205	5,562	5,059
Net profit for the year	13,380	13,638	24,640	21,488	14,599
Items not affecting working capital	31,064	30,001	32,504	16,763	11,753
Cash flow from operations	44,444	43,639	57,144	38,251	26,352
Shareholders' equity:					
Paid-in capital	188,605	188,605	188,605	155,940	142,940
Profits retained in the business	120,479	107,099	93,461	68,821	47,333
Capital expenditures:					
Exploration and production	18,763	44,599	36,415	15,519	24,925
Marketing, refining and other	21,020	26,079	40,933	34,424	9,708
Salaries, wages and benefits	33,859	30,181	19,723	15,351	13,183
Operating					
Gross crude oil and condensate produced (barrels per day)*	15,280	15,330	12,330	14,250	14,020
Gross raw natural gas produced (millions of cubic feet per day)*	58.4	48.7	40.0	42.7	44.8
Net undeveloped oil and gas acreage (millions of acres)	16.8**	16.4	17.1	14.5	15.4
Crude refined at Sun refinery (barrels per day)	77,630	83,280	69,410	38,860	36,010
Sales of refined products (barrels per day)	66,320	70,300	65,150	44,850	41,840
Service stations (year-end)	1,140	1,170	1,150	1,160	1,240
Average number of employees	2,464	2,565	2,203	1,620	1,306

*Prior to 1975 net figures are shown.

**Subject to reduction under a farmout agreement.

†1975 and prior figures have been restated to include SDX companies acquired in 1976, and revenues and expenses reclassified. (See note 3 to financial statements)

Sun's manufacturing record	1976	1975
(Barrels in thousands)		
Crude refined at Sun refinery	28,412	30,397
Deduct: crude refined for others	(12,317)	(12,282)
Crude refined by others in Canada for Sun	7,589	6,500
Crude refined — Sun account	23,684	24,615
Crude refined at Sun refinery as % of year-end capacity	91	97



Sun Oil Company Limited